CHEMICAL BANKING Corporation

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Financial Digest

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Analysis of Business Trends Plus Selected Financial Indicators

Trade Deficit In Remission

One of the more positive features of today's economic landscape is the pronounced improvement in the merchandise trade balance. For notwithstanding a year-long slowdown in economic activity throughout large chunks of the industrial world, U.S. exports continue to rise at a buoyant clip while, at the same time, import growth has been restrained due to the muted business recovery here. These trends have transformed the U.S. trade position from one dotted by yawning deficits with most regions of the world, into one in which the likelihood of a global trade surplus in the not-too-distant future is a distinct possibility.

According to the more skeptical pundits it wasn't supposed to happen this way. Stagnation in Europe (Financial Digest—April 6, 1992) threatened to remove the muscle from U.S. export performance. But what the pundits missed was the remarkable resiliency of the East Asian regional economy and the rebirth of numerous Latin American countries. Their growing appetite for everything from cigarettes to computers to commercial jet aircraft has not only deepened the ongoing trade recovery, but has also enabled the United States in 1991 to reclaim its traditional position as the world's number one exporter, a title briefly lost to Germany the year before.

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The roots of this improvement extend back to the mid-1980s, when the United States, in concert with the other major industrial countries, initiated a policy of deliberately and extensively cheapening the dollar in the foreign exchange markets. Between 1986 and the end of 1991, the dollar's external value was sliced roughly in half compared with the other major currencies, with most of the depreciation occurring during the first two years of this period. It didn't take long before the tonic started to work: The trade deficit stabilized, and then went into remission. Whereas the red-ink topped $160 billion in 1986, by last year this imbalance had dwindled to $66 billion. What is more, the improving trend appears to be gathering momentum. According to the Commerce Department, the monthly trade deficit narrowed to a nine-year low of just $3.4 billion in February, down from nearly $6 billion in January, as exports spiked to an all-time high and imports held steady.

If the improving trade trend was just a one-industry or one-region phenomenon, the trade balance could again widen as quickly as it shrank. But, it isn't. In terms of export composition and destination, trade gains have been across the board. Capital goods exports, the heart of U.S. export capabilities, hit a monthly record of $15.4 billion in February, a hefty 24 percent increase compared with February 1991 levels. Overseas sales of computers, construction equipment, power generating machinery and telecommunications equipment all vaulted higher compared with year-earlier levels, and even the hard-pressed automobile industry shared in the export boom; during the first two months of this year, automotive exports were running nearly 20 percent ahead of same period 1991 levels.

So, too, extensive improvements have been posted with almost all of our major trading partners, albeit with the noteworthy exceptions of Japan and the People's Republic of China. In the case of Japan, although the annual red-ink hemorrhage has seemingly stabilized in the $40 billion plus neighborhood, prospects for further improvement anytime soon seem remote. Japan's economy is in a downdraft, and a sizeable minority of U.S. consumers remain wedded to Japanese automobiles—which account for about three-quarters of the existing bilateral trade imbalance. A more significant exception is the People's Republic of China, whose trade surplus with the United States has risen phoenix-like, on the back of stepped-up sales to the United States of such labor-intensive products as toys, clothing and footwear. The U.S. deficit with China reached $12.9 billion last year—the second largest bilateral imbalance.

Regional Improvements

Nonetheless, exceptions rarely prove the rule, and this case is no different. Even in East Asia, U.S. exporters are flexing their muscles. With the so-called NICs (newly industrialized countries), for example—Hong Kong, South Korea, Taiwan and Singapore—the United States has been making steady progress since 1987, with our deficit shrinking each year since then. Over the past four years, the U.S. has chipped away at its trade deficit with this group, trimming the red ink by more than $20 billion, or about two-thirds. With the exception of Singapore, the U.S. deficit diminished with each of the NICs, especially with Taiwan and Korea—where the bilateral deficit has almost vanished.

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In Europe, not only has the deficit vanished, but it has been supplanted by a large and growing surplus. Whereas the U.S. trade deficit with Western Europe stood at nearly $28 billion in 1986, just five years later the United States posted a $16 billion surplus. Trade surpluses are now being registered with a growing number of European countries—even while their economies sag. Although the United States continues to register a trade deficit with Germany, here, too, large gains have been recorded. Initially in response to the powerful expansion of the western German economy and, more recently, as a result of the eastern German renaissance, U.S. exports to Germany have doubled during the past five years and the trade deficit has been reduced from $14 billion to $4 billion.

Closer to home, trade gains are being posted both north and south of the border. The trade deficit with Canada narrowed by $2.4 billion during the last 12 months, compared with the previous 12, notwithstanding the fact that Canada experienced a deeper recession than did the United States. But it is in Latin America where U.S. export prospects are rapidly building. Emerging from the "lost" decade of the 1980s, these countries are liberalizing their trading and financial relationships and giving

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/15/92)	152,164	- 1,440	- 48,678
New York City (4/22/92)	25,381	- 1,205	- 6,646
Commercial Paper (4/22/92)	549,747	+ 6,373	- 2,709

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/15/92)	288,273	+ 851	- 30,891
New York City (4/22/92)	48,980	- 563	- 7,918

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/15/92)	1,023,640	+14,934	- 29,267
New York City (4/22/92)	162,030	- 5,524	- 11,940

Financial Markets

	Friday 5/1/92	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	3.69%	- .08	- 1.92
180-Day Bills†	3.85	- .10	- 1.94
Longest Bills†	4.28	+ .03	- 1.79
Recent Issues:			
5⅛s 4/30/94	5.30	- .06	
6⅞s 3/31/97	6.82	NA	
7½s 11/15/01	7.54	- .01	
8s 11/15/21	8.00	- .06	
Municipals:			
Bond Buyer—20 Bond Index* (4/30/92)	6.69%	- .01	- .26
Blue List Total ($ Million)	$1,413	+ $191	+$ 383
30-Day Visible Supply ($ Million)	$3,319	- $748	+$ 787
Total	$4,732	- $557	+$1,170
Corporates:			
Moody's Aa Composite (4/30/92)	8.73%	- .01	- .32
30-Day Visible Supply ($ Million)	$ 970	- $ 65	+$ 570
Stocks (3:30 p.m.):			
Dow-Jones Averages:			
Industrials	3,337.43	+ 32.87	+398.57
Transportation	1,357.81	+ 7.66	+186.79
Utilities	210.69	+ 4.00	- 0.77
65 Stocks	1,180.18	+ 11.64	+128.09
N.Y.S.E. Composite Index	227.14	+ 2.20	+ 18.74
N.Y.S.E. Avg. Daily Vol. for Week (000's)	203,141	- 9,982	+26,538

*34% Taxable equivalent 10.14%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Thursday 5/1/92	Week Ago
Overnight	3.88%	3.56%
1 month	3.88	3.88
3 month	4.06	3.94
6 month	4.25	4.13
1 year	4.69	4.63

FOREIGN EXCHANGE SPOT RATES New York Opening (5/1/92)	Currency Per U.S. $	Week Ago
Belgium	33.87	33.96
Canada	1.1899	1.1857
France	5.5543	5.5766
Germany	1.6485	1.6500
Italy	1237.96	1243.03
Japan	133.05	134.35
Mexico	3075.50	3069.00
Netherlands	1.8529	1.8585
South Korea	794.68	795.39
Switzerland	1.5140	1.5270
Taiwan	24.95	24.99
U.K.*	1.7789	1.7728

*U.S. $ per U.K. pound

CHEM TRADE-WEIGHTED DOLLAR (5/1/92) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	-0.4%	-19.3%

freer rein to the private sector. As a result, economic growth is resuming throughout much of the region, and U.S. exporters are reaping the benefits. Paced by surging capital goods exports, total U.S. exports to Latin America rose by nearly 18 percent in 1991 year-over-year and the trade balance turned from a $10.1 billion shortfall in 1990 to a $650 million surplus in 1991.

Will It Last?

Indeed, it is precisely the growing importance of Latin America and East Asia in U.S. trading patterns which should sustain our global trade improvements. The dynamic economies of East Asia and the revitalized economies of Latin America have been purchasing an ever-growing share of U.S. exports; together, they now account for nearly 30 percent of total U.S. overseas sales and, perhaps even more important, the lion's share of recent export growth. On the other hand, the share of U.S. exports absorbed by Europe has held generally steady at around 27 percent in recent years. As a result, although economic stagnation in Europe and a pickup in business activity here will ultimately extract a toll on the U.S. trade position, their impact will be muted as long as Latin America and East Asia continue to march to the tune of their own growth drummer.

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 4/29/92	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	272.850	+ .567	+25.092
Loans to Depository Inst.	.132	+ .028	- .141
Float	.415	- 1.684	- .608
Total Reserve Bank Credit	304.648	- .722	+18.576
Treasury Deposits with Federal Reserve Banks	4.781	- .397	- .965
Currency in Circulation	305.543	- .671	+19.135
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	271.205	- 1.550	+29.758
Member Bank Reserves:	**4/29/92**		
Total Reserves Held	58.946	+ .145	+ 9.104
Excess (Deficiency)	1.123	- .035	- .075
Net Free Reserves	1.009	- .024	- .048
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**Year Ago**
M1 (4/20/92)	945.7	+ 15.7	+ 11.5
M2 (4/20/92)	3,461.4	+ 3.0	+ 2.2
M3 (4/20/92)	4,172.6	+ 0.9	+ 0.2
Domestic Nonfinancial Debt (4th Q'91)	11,229.1	+ 5.3	+ 4.4

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 5/1/92	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	3.65%	3.78%	4.12%
* Federal Agencies	3.87	4.00	4.30
* Municipal Notes–High Grade (34% Taxable Equivalent)	4.70	4.77	6.44
Negotiable Time CDs Chemical	Rates By Arrangement		
* Secondary Market–Prime	4.03	4.21	4.73

‡ Finance Company Paper–Prime

5- 14 days	3.80%
15- 29 days	3.83
30- 59 days	3.83
60- 89 days	3.83
90-179 days	3.90
180-239 days	4.00
240-270 days	4.00

‡* Bankers' Acceptances

Jun.	3.78%
Jul.	3.79
Aug.	3.80
Sep.	3.85
Oct.	3.90
Nov.	3.91

‡ Industrial Paper–Prime

30- 89 days	3.93%
90-120 days	3.95

†Federal Funds Effective Rate 3:30 p.m. 3.75%

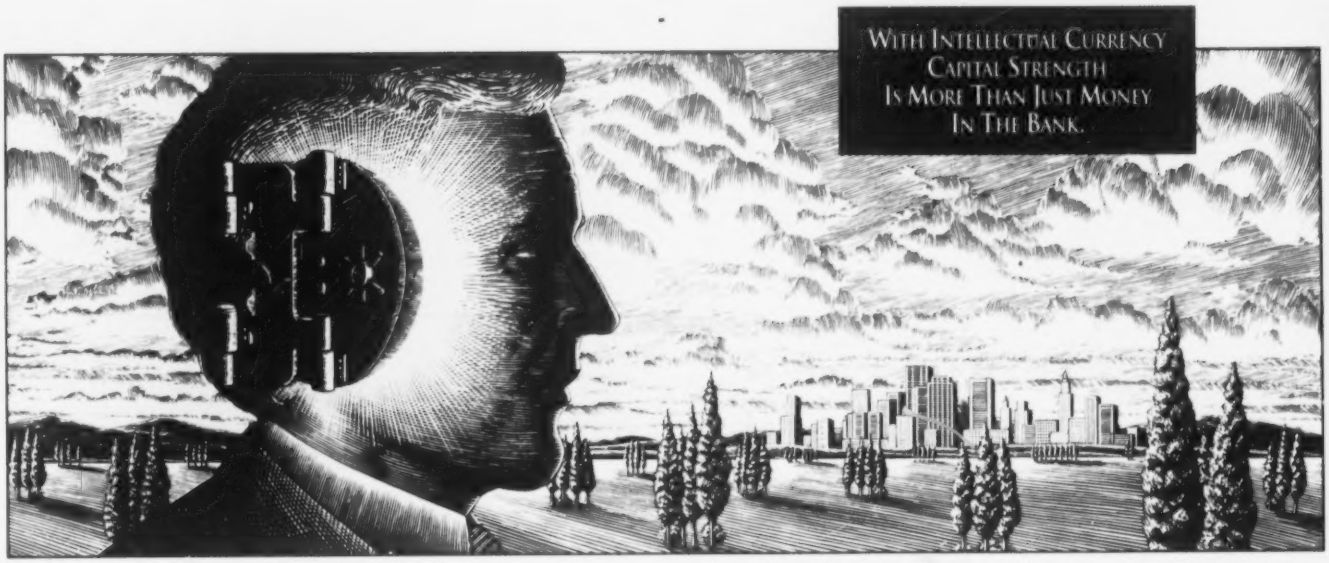
‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross Domestic Product (Current Dollars)*	1st Q'92 n	$ 5,809	$ 5,740	$ 5,589
Gross Domestic Product (1987 Dollars)*	1st Q'92 n	$ 4,892	$ 4,868	$ 4,824
Percent Change, Annual Rate	1st Q'92 n	2.0	0.4	- 2.5
Change in Consumer Prices*	Mar '92	6.0%	3.6%	1.2%
Change in CHEM Cost of Living Index*	Mar '92	6.0%	7.2%	4.8%
Change in Producer Prices*	Mar '92	2.4%	2.4%	- 3.6%
Civilian Employment (Thousands of Persons) †	Mar '92	117,348	117,043	116,834
Unemployment as % of Civilian Labor Force †	Mar '92	7.3%	7.3%	6.7%
Personal Income*	Mar '92 n	$ 4,990	$ 4,963r	$ 4,781
Leading Indicators Composite Index (1967=100) †	Mar '92 n	147.9	147.6	141.5
Industrial Production Index (1977=100) †	Mar '92	107.2	106.9	105.0
Net Change in Consumer Installment Credit †	Feb '92	- $ 0.20	- $ 0.05	- $ 0.32
U.S. Merchandise Trade Balance †	Feb '92	- $ 3.38	- $ 5.95	- $ 5.50
Plant and Equipment Expenditures*	2nd Q'92	$ 557.5(a)	$ 545.0(a)	$ 524.6
Private Housing Starts (Thousands of Units)*	Mar '92 n	1,365	1,283r	918
New Construction Expenditures*	Mar '92 n	$ 419.9	$ 413.3r	$ 401.9
Total Business Inventories †	Feb '92	$ 813.0	$ 813.0	$ 827.6
Total Business Sales †	Feb '92	$ 544.8	$ 537.2	$ 527.8

*Seasonally adjusted annual rate. † Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.



In the largest common equity offering ever for a U.S. financial institution, Chemical Banking Corporation added more than $1.5 billion to an already strong capital base.

We now total $119 billion in assets and $8.8 billion in shareholders' equity.

It takes this capital strength plus something more to forge a competitive edge—to convince you as a client to choose us over other institutions.

It takes the experience, intelligence and ingenuity our people use to solve problems—a combination of knowledge and drive we call intellectual currency. Without the energizing spark of intellectual currency, capital strength can't be used to its full potential.

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Our combination of intellectual currency and capital strength helps personal assets grow, helps growing businesses set and reach new goals, and creates even more responsive and cost-efficient operating services.

Intellectual currency and capital strength. They are in place at all our locations now—to dissolve obstacles, create momentum, and help you build what you want to build.

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